

## **Michigan Municipal Bond Authority**

### **State Aid Note Loan Program -- August 2006 - Borrowing Options for School Districts**

#### **Option 1: Set Aside Payments**

- 1) School districts repay the principal and interest on their notes by making either 5 or 7 monthly set aside payments.
  - **5 set aside payments:** January 2007 through May 2007
  - **7 set aside payments:** January 2007 through July 2007
- 2) Set aside payments are pooled and invested on behalf of school districts in a competitively bid guaranteed investment contract (GIC). Investment earnings are credited toward repayment of each school district's note, lowering the overall cost of borrowing.
- 3) The program is structured so that the Authority's notes receive the highest short-term rating of SP-1+, ensuring a competitive interest rate for the borrowing.
- 4) Monthly State Aid must be at least 2X the amount of set-aside payment.
- 5) School District must not have realized a drop in student population greater than 5% from the previous year, otherwise they must utilize Option 2.
- 6) **Security Requirements:**
  - **A limited-tax general obligation**
  - **Agreement to authorize the intercept of state aid in the event of default**
  - **Pledge of certain state aid payments**

#### **Option 2: No Set Aside Payments**

- 1) Monthly set aside payments are not required under this option, therefore no investment earnings are realized.
- 2) School districts make repayment of the entire principal and interest due on their note on the loan maturity date. The State Treasurer automatically transfers the August 2007 state aid to the Authority to pay all or a portion of the notes.
- 3) "With the no set aside option, the additional security of a letter of credit (obtained by the Authority) is required. The program is structured so that the Authority's notes receive the highest short-term rating of SP-1+, ensuring a competitive interest rate for the borrowing."
- 4) **Security Requirements:**
  - **A limited-tax general obligation**
  - **Agreement to authorize the intercept of state aid in the event of default**
  - **Pledge of certain state aid payments**
  - **Investment grade letter of credit** (obtained by the Authority)

**Note:** Costs of issuance are shared on the same pro rata basis among set aside and no set aside borrowers. However, borrowers with no set aside payments incur the additional costs associated with the letter of credit and do not realize investment earnings on set aside payments.